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BACKGROUNDER: THE MARKETPLACE FOR ELECTRICITY

Report Highlights

- Ontario should have a marketplace to bring together buyers and sellers of electricity.
- A System Operator would be the objective physical gatekeeper for access to the transmission system.
- An Electricity Exchange would maintain the financial integrity of the system.

Existing System

Ontario's wholesale or bulk electricity prices are determined by the Board of Directors of Ontario Hydro using a power pool model. Ontario Hydro pools its total costs -- from generation to transmission to administration -- and divides this by expected electricity sales.

Wholesale customers -- municipal electric utilities, direct industrial and rural customers -- pay the same bulk electricity rate regardless of where they are located in Ontario.

Although Ontario Hydro's proposed rate increases are submitted to the Ontario Energy Board for review, but the utility is not required to follow the OEB's recommendations.

Reasons for Change

Ontario Hydro's overwhelming dominance means that Ontario does not have a market for electricity. It is impossible to determine what the market price should be for electricity when one entity can set prices to recover its self-designated costs.

While Ontario needs a fair and competitive electricity market, it also must continue to have a reliable and secure power supply.

The new electricity system would be built on two independent institutions:

- a System Operator to manage technical matters, and
- an Electricity Exchange to handle financial matters.

Both of these offices must be fair, not-for-profit and completely independent of any generation, transmission or distribution companies. They are key to establishing a fair, open, competitive -- and secure -- electricity system in Ontario.



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